



Your credit report and bankruptcy

Credit Report Basics

This guide explains what bankruptcy is and how it could affect your creditworthiness.

Who is Experian?

Experian is the UK's largest credit reference agency. When you apply for credit, you will probably give the lender (the organisation you want credit from) permission to carry out a credit check through us. We do not decide who should get credit, but the information we provide (which you can see by asking us for a copy of your credit report) may help the lender to decide. This information includes details of the electoral register, court judgments, bankruptcies and your current and past credit commitments.

What is bankruptcy?

Bankruptcy is one way of sorting out debts that you cannot pay. It is a court order which usually frees you from your debts, although, depending on your circumstances, you may still have to make a contribution towards your debts. Some types of debt cannot be included in a bankruptcy, such as government Student Loans and court fines. You can voluntarily apply (or 'petition') for bankruptcy or your creditors (the people you owe money to) can approach the court themselves and ask for you to be made bankrupt. You will have to pay a fee and fill in several forms. Becoming bankrupt may mean you have to give up any valuable possessions you own and possibly your home. Your details will also be advertised in a national gazette, a local newspaper and on the internet.

Under bankruptcy law, you will be automatically freed from your bankruptcy (known as being 'discharged') after a maximum of 12 months in England and Wales, although the discharge can be extended indefinitely if you fail to co-operate in the bankruptcy proceedings. Scottish bankruptcies are called sequestrations and are usually discharged after three years.

Although bankruptcy will be the best option for some people, it should only ever be considered as a last resort and after receiving professional advice, such as from a Citizens Advice Bureau, a solicitor, a qualified accountant, an authorised insolvency practitioner, a reputable financial adviser or a debt advice centre.

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Will bankruptcy affect my ability to obtain credit?

A bankruptcy order will appear on your credit report for a minimum of six years from the date of bankruptcy and longer if the bankruptcy lasts more than six years. During the period of bankruptcy, a number of restrictions apply, for example you are legally bound to tell a lender you are bankrupt if you are applying for credit of more than £500.

This means you are unlikely to be able to obtain credit while you are bankrupt. Even after your bankruptcy has been discharged, organisations might refuse to give you credit or other financial services simply because you have been bankrupt in the past. And if you do manage to find someone who will lend to you, it is possible that they will charge you a higher interest rate as they will see you as a high-risk customer.

Who can look at my credit report other than lenders?

Landlords and employers can look at the 'public' information on your credit report, such as court judgments and bankruptcy orders. As a result, going bankrupt may affect your chances of renting a home or getting the job you want. Being an undischarged bankrupt also bars you from certain posts, for example you cannot be a company director.

What happens when I am made bankrupt?

If your application for bankruptcy is approved in court, your creditors can no longer chase you for payment. The Official Receiver or a licensed insolvency practitioner will take control of your assets (your money and property) and will deal with your creditors for you. When you are made bankrupt, any assets that you have will be shared between your creditors and, if you can afford to, you may be required to make payments to your creditors for three years. Any property you own, whether or not it's mortgaged, may have to be sold, so you may lose your home.

In England and Wales, most bankrupts receive their discharge within one year, but the fact that you were bankrupt will stay on your credit report for at least six years.

What happens if my bankruptcy is cancelled?

If your bankruptcy is cancelled by the court (a process known as 'annulment'), we and the other credit reference agencies will remove information about the bankruptcy from your credit report if you send us a copy of your annulment certificate.

For how long will bankruptcy affect my creditworthiness?

In England and Wales, most bankrupts receive their discharge within one year, but the fact that you were bankrupt will stay on your credit report for at least six years. Although it will show when your bankruptcy is discharged, the discharge will not wipe your credit report clean. Your report may also separately show details of any debts that were included in your bankruptcy and these will stay on your credit report for six years, although you can add a note to your report to explain that all the debts were included in your bankruptcy.

Even though the details of your bankruptcy will usually be removed from your credit report after six years (as long as your bankruptcy has been discharged and you have not been reckless – see next section) some mortgage lenders will ask if you have ever been bankrupt, so your bankruptcy could affect your creditworthiness forever. If your bankruptcy is never discharged, it can remain on your credit report indefinitely.

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What are Bankruptcy Restrictions Orders and Undertakings?

A Bankruptcy Restrictions Order can be made against you for a variety of reasons including if you do not cooperate with the Official Receiver (or the licensed insolvency practitioner) or if you took on credit knowing that you could not pay it back. A Bankruptcy Restrictions Order can last for up to 15 years and stays on your credit report (and an online register) for this time. You might also face a criminal prosecution. If you agree the bankruptcy was your fault, you can make a Bankruptcy Restrictions Undertaking without having to go back to court. This has the same legal effect as a Restrictions Order.

Are there alternatives to bankruptcy?

Contact your creditors and tell them about your situation. Many lenders will be sympathetic and you may be able to make an informal arrangement with them to make reduced payments for a while. If you feel you need help doing this, contact one of the free advice agencies listed opposite. They may be able to negotiate with your creditors on your behalf and arrange a debt management plan for you. They will also be able to explain other more formal ways to sort out your debts, including an individual voluntary arrangement (IVA), a debt relief order, a Protected Trust Deed (Scotland) and an Administration Order. There is a separate Credit Report Basics guide about IVAs.

Debt relief orders

A debt relief order (DRO) is a form of insolvency for people in England and Wales who owe less than £20,000, don't have much spare income and don't own their home. If you get one:

- your creditors can't recover their money without the court's permission; and
- you're usually discharged from your debts after 12 months.

A DRO will usually stay on your credit report for six years after the date of the order and, like a bankruptcy, will significantly damage your chances of getting credit in that time.

What if I live in Scotland?

In Scotland, bankruptcies are known as sequestrations and are usually discharged after four years. Information about a sequestration stays on a credit report for at least six years, as with bankruptcy orders described earlier.

How do I know which option is best for me?

If you are worried about debts and think that bankruptcy or an IVA may be the best option for you, contact your local Citizens Advice Bureau or other free advice centre. Alternatively, contact National Debtline or the StepChange Debt Charity for free, confidential and impartial advice. You do not need to pay a company to arrange a debt management plan for you, nor should you pay for help from any so-called credit repair company.

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Other useful guides and leaflets

Credit Report Basics is a series of guides that examine common credit report issues. We produce these under our consumer education programme and a full list of these guides is below.

- Your credit report and the electoral register
- Your credit report and bankruptcy
- Credit report myths
- Your credit report and individual voluntary arrangements (IVAs)
- Your credit report and previous searches

We also produce a series of leaflets called Credit Crossroads to help you understand how credit reports are produced and used and when they affect your life. The leaflets available in this series are listed below.

- Students and young people
- Refused credit
- Living together
- Redundancy or reduction of income
- Moving home
- Relationship breakdown
- Bereavement or serious illness

You can visit www.experian.co.uk/consumer/introduction-to-credit/index.html to read or print all our free guides and leaflets.

Useful contacts

Experian: Help and advice about your credit report

www.experian.co.uk

0344 481 8000

Insolvency Service: Information and advice about bankruptcy orders

www.gov.uk/government/collections/insolvency-service-guidance-publications

Citizens Advice: Look in your local phone book under 'Citizens Advice Bureau'

www.adviceguide.org.uk

StepChange

www.stepchange.org

0800 138 1111

National Debtline

www.nationaldebtline.co.uk

0808 808 4000

Payplan

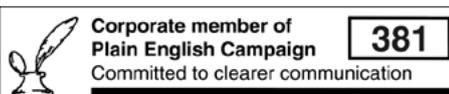
www.payplan.com

0800 280 2816

Other credit reference agencies:

Callcredit 0330 024 7574

Equifax 0330 321 4043



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